Press Briefing

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Medicaid Issues: Overview

- Background and clarifications
  - Reform 1.0
  - Reform 2.0
- Medicaid spending, budget deficits, and implications for Medicaid reform
- Accountability Measures
  - Medical loss ratio
  - Achieved savings rebate
  - Reporting, transparency, consequences

Medicaid Issues: Background

Medicaid 1.0

What is reform?

- Managed care/capitation
  - HMOs
  - PSNs
- Flexible benefits
- Consumerism
  - Meaningful choices
  - Control over some resources
- Accountability
  - Access
  - Quality
  - Cost

What reform is not…

- Privatization
- HMO-only
- For-profit only
- Untested
- Perfect

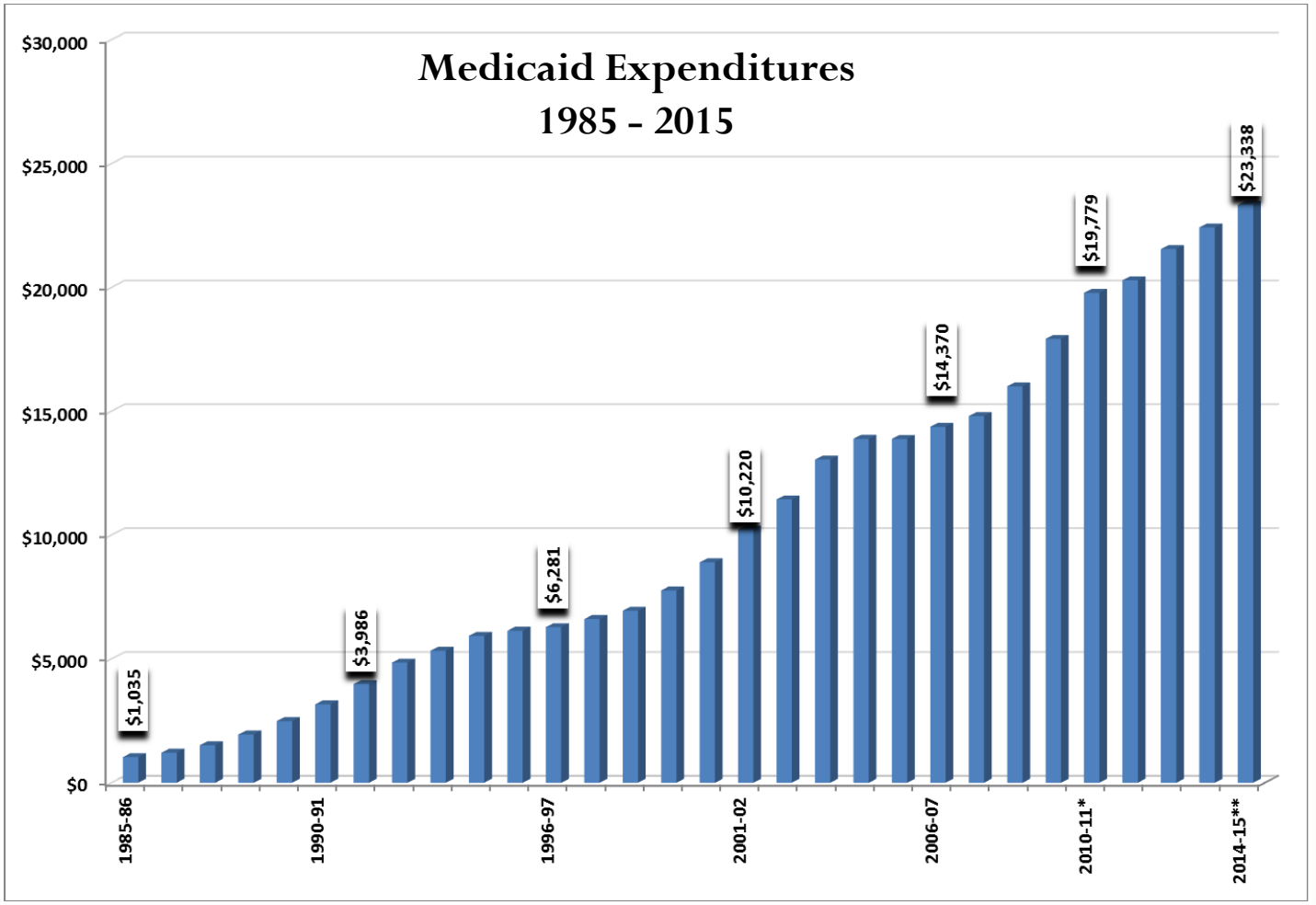
Medicaid Issues: Background

Medicaid 2.0

Key changes:

- Limited number of plans
- Regional competitive procurement
  - Statewide coverage
  - Competitive pressure on price and other
- Managed long term care
- Administrative simplification
- New accountability provisions

Medicaid Issues: The Money



Medicaid Issues: The Money

- Financial effects of managed care/capitation
  - Enrollment: federal requirements
  - Prices: hospital/nursing home rates are key drivers
  - Utilization: who decides?
- Pilot experience
  - Rates: redistribution through risk adjustment
  - Budget neutrality: consistently below target
  - UF study: reform averages $156 less PMPM compared to non-reform
- Future savings
  - Competitive procurement
  - Incentives to shift long term care placements

Medicaid Issues: Accountability

Medical Loss Ratio

- MLR compares two numbers:
  - Medical spending

    Divided by
  - Premium revenue
- MLR is expressed as a percent (%)
- MLR benchmarks depend on what counts
  - Paid or Incurred claims?
  - What is medical care and what is administration?
  - Deductions, caps, exclusions and other regulations?

Medicaid Issues: Accountability

Medical Loss Ratio (MLR) Limitations

- MLRs do not measure quality
- MLRs do not cap administrative spending;
  - Higher administrative spending is permitted with higher medical spending
  - High ratios can be reached by more medical spending or by lower premiums
- Some expenses are both medical care and administration
  - Disease management/ case management
  - Health information systems
- Multiple factors drive administrative expenses
  - Organizational structure (staff model HMO)
  - Care management functions (internal or contracted)

Medicaid Issues: Accountability

Achieved Savings Rebate

Requirements of HB 7107

- Annual financial reports; 409.967(3), F.S.
- Financial data available for inspection; 409.967(3)(d), F.S.
- Annual independent audit; 409.967(3)(b) and (c), F.S.
- Income calculated after determination of "allowable" costs (medical and other expenses); 409.967(3)(h), F.S.
  - Certain expenses excluded (reserves, incentive payments, bonuses, lobbying)
  - Certain expenses capped (bad debt, reinsurance, interest payments, depreciation)
- Rebates to state if income exceeds specific thresholds; 409.967(3)(f),F.S.
  - Profit capped at 7.5% of premium unless quality exceeds benchmarks (then 8.5%)

Medicaid Issues: Accountability

Achieved Savings Rebate

Income	Rebate
Up to 5% of revenue	None
> 5% ≤ 10% of revenue	50% of income
> 10% of revenue	100% of income

Measuring Plan Performance

Goals	Measures

• Access	• Network adequacy
	  ◦ Number/distribution of providers; 409.967(2)(c), F.S.
	• Utilization patterns/rates
	  ◦ Service specific use rates; 409.967(2)(d)2, F.S.

• Quality	• Patient satisfaction
	  ◦ Surveys and other feedback; 409.967(2)(e)1,F.S.
	• HEDIS/other benchmarks
	  ◦ Disease/condition/age specific services; 409.967(2)(e)2.F.S.
	• Outcomes
	  ◦ Examples: preventable hospitalizations; re-admissions; emergency department use

• Cost	• Expenditures
	  ◦ Total and by type of spending; 409.967(3), F.S.
	• Spending rates/ratios
	  ◦ Amount per enrollee
	  ◦ Amount compared to target

Comparison of MLR and ASR

	PPACA	ASR
Total Countable Revenue	1,000	1,000
Claims based expenses	850	850
Expenses to improve quality	10	10
Subtotal of Medical Expenses	860	860
Administrative Expenses	130	130
Total Expenses	990	990
Income	10	10
Raw MLR	86.0%	86.0%
Risk Adjustment (to Revenue)	0	
Risk Corridor Adjustment (to Revenue)	0	
Public Reinsurance Benefit		
Adjusted Revenue	1,000	
Net Income	10	
Adjusted MLR	86.0%	
Rebate	0	0
Net Income After Rebate	10	10
Excluded Expenses		0
Net Income After All Expenses	10	10

Comparison of MLR and ASR

	PPACA	ASR
Total Countable Revenue	1,000	1,000
Claims based expenses	850	850
Expenses to improve quality	10	10
Subtotal of Medical Expenses	860	860
Administrative Expenses	220	220
Total Expenses	1,080	1,080
Income	(80)	(80)
Raw MLR	86.0%	86.0%
Risk Adjustment (to Revenue)	0	
Risk Corridor Adjustment (to Revenue)	76	
Public Reinsurance Benefit		
Adjusted Revenue	1,076	
Net Income	(5)	
Adjusted MLR	80.0%	
Rebate	0	0
Net Income After Rebate	(5)	(80)
Excluded Expenses		0
Net Income After All Expenses	(5)	(80)

Comparison of MLR and ASR

	PPACA	ASR
Total Countable Revenue	990	1,000
Claims based expenses	880	795
Expenses to improve quality	12	10
Subtotal of Medical Expenses	892	805
Administrative Expenses	62	57
Total Expenses	954	862
Income	36	138
Raw MLR	90.1%	80.5%
Risk Adjustment (to Revenue)	0	
Risk Corridor Adjustment (to Revenue)	(15)	
Public Reinsurance Benefit		
Adjusted Revenue	975	
Net Income	21	
Adjusted MLR	91.5%	
Rebate	0	63
Net Income After Rebate	21	75
Excluded Expenses		102
Net Income After All Expenses	21	(27)

Medicaid Issues: Summary

- The primary objective of Medicaid reform is to improve value:
  - Improve access and quality
    - Accountability for network adequacy
    - Accountability for performance
    - Incentivize care management and coordination
  - Manage costs
    - Better allocation through risk adjustment
    - Incentivize innovation
- Cost savings may result, but cost avoidance more likely than reduced spending.
- The most important question in health care is "Who decides?"